

# BUDGET LETTER

<b>SUBJECT:</b> BUDGETING AND ACCOUNTING RELATIONSHIP, COORDINATION, AND FUND RECONCILIATION	<b>NUMBER:</b> 15-03
<b>REFERENCES:</b> GOVERNMENT CODE SECTIONS 12460, 13031, 13344, 13403; STATE ADMINISTRATIVE MANUAL; AND AUDIT MEMO 11-02	<b>DATE ISSUED:</b> May 1, 2015
	<b>SUPERSEDES:</b> 14-04

TO: Agency Secretaries  
Department Directors  
Departmental Budget and Accounting Officers  
Department of Finance Budget and Accounting Staff

FROM: DEPARTMENT OF FINANCE

**BUDGET OFFICERS ARE REQUESTED TO FORWARD A COPY OF THIS BUDGET LETTER TO DEPARTMENTAL INTERNAL ACCOUNTING OFFICERS AND AUDITORS.**

This Budget Letter (BL) reminds state departments of the requirements for reporting past/prior year financial data when submitting budget documents during the development of the 2016-17 Governor's Budget.

Deadlines	Deliverables
<b>September 1, 2015</b>	(1) Non-shared fund administrators submit DF-303 packets to Finance budget analyst. (2) Shared fund users submit DF-303 packets to fund administrators. (3) Departments submit DF-304 and supporting documentation to Finance budget analyst.
<b>September 15, 2015</b>	Shared fund administrators submit DF-303 packets to Finance budget analyst.

Please note: Comprehensive technical instructions and the list of funds subject to the reconciliation process were provided on Finance's website last year. They are on Finance website at: <http://www.dof.ca.gov/accounting/Fund%20Reconciliation/>. These instructions and the list of funds will be updated by early June to reflect this year's technical process.

This BL covers these key areas:

- A. Consistency between Governor's Budget and Year-End Financial Reports.
- B. Basis of Accounting.
- C. Management of Funds and Fund Administrators' Authority and Responsibilities.
- D. Fund Users' Responsibilities.
- E. Certification (both fund administrator and fund users of all funds).
- F. Fund Reconciliation Instructions (both fund administrator and fund users of all funds).

## **A. Consistency between Governor's Budget and Year-End Financial Reports**

Government Code section 12460 requires information in the State Controller's Budgetary/Legal Basis Annual Report to account for funds on the same basis as that of the applicable Governor's Budget and Budget Act. Government Code section 13344 requires state departments to prepare and maintain financial and accounting data for inclusion in the Governor's Budget, Budget Act and related documents, and the Budgetary/Legal Basis Annual Report described in section 12460, according to the methods and bases provided in regulations, budget letters, and other directives of the Department of Finance (Finance). The State Controller's Annual Report reflects a culmination of information submitted by departments. It is critical that departments' submittal of year-end financial reports to the State Controller's Office (SCO) reflects correct and reconciled information.

As specified in the State Administrative Manual (SAM) (<http://sam.dgs.ca.gov>) section 6400, it is important that fund balance, revenues, expenditures, and other data included in the past year's presentation of the Governor's Budget reconciles with similar data published in the SCO's Budgetary/Legal Basis Annual Report. Therefore, departments must ensure that data included in the budget documents reconcile with year-end financial reports. In very limited circumstances, there may be differences between the amounts in the Governor's Budget and the year-end financial reports (e.g., pending budget decisions or legislation).

## **B. Basis of Accounting**

Unless otherwise specified in law, the General Fund and special funds are accounted for and maintained on a modified accrual basis. Under the modified accrual basis of accounting, revenues are recognized if the underlying transaction has occurred as of the last day of the fiscal year and the amount is measurable and available to finance expenditures of the current period (i.e., the actual collection will occur either during the current period or after the end of the current period to be used to pay current year-end liabilities). Expenditures are accrued when the obligations are created, except for amounts payable from future fiscal year appropriations. Additional information is included in SAM section 10200 et seq.

## **C. Management of Funds and Fund Administrators' Authority and Responsibilities**

Finance designates an administering department for each fund. The administering department is responsible for the overall management of the fund. The fund administrator of a shared fund has the authority to request from the users of the fund, all the necessary accounting reports and reconciliations required to reconcile and manage the fund. The shared fund administrator is responsible for coordinating the timely receipt of information from the fund users. Shared fund administrators are encouraged to contact fund users prior to year-end to set expectations of due dates and discuss any potential delays in a fund user's submission of the required documents. In the rare event that fund administrator-set deadlines will not be met, it is the responsibility of the fund administrator (of both shared and non-shared funds) to communicate to Finance any potential problems that may prevent the timely submission of reports to Finance and the mitigating measures. SAM 6401 outlines the authority and responsibilities of a fund administrator and fund user for both shared and non-shared funds.

During the preparation of the 2016-17 Governor's Budget, Finance and the designated administering departments, in collaboration with the SCO, will reconcile fund balances between amounts in the Governor's Budget and those to be published in the SCO's Budgetary/Legal Basis Annual Report.

## **D. Fund Users' Responsibilities**

Fund users are departments that spend from a fund, collect revenues for a fund, or transfer cash to or from a fund. Departments that levy assessments for statewide projects/programs are not considered fund users. A fund user is responsible for calculating its own portion of the prior year adjustment, and reconciling past year revenues, expenditures, and transfers between its year-end financial reports and

budget documents, if appropriate. Fund users must provide necessary and timely information to the designated fund administrator to facilitate the overall reconciliation of the fund. It is the fund user's responsibility to communicate to the fund administrator any potential problems that may prevent the submission of timely reports and the mitigating measures.

#### **E. Certification**

In accordance with Government Code section 13031, fund administrators and fund users must sign Form DF-117, Certification of Past and Prior Year Information (Attachment I). Each department head or his/her designee (who must be at least one level above both budgeting and accounting) must certify the following:

- Past/prior year information provided to Finance is accurate and reconciles between budget and accounting records, and
- Budget and accounting information is consistent with information provided to the SCO.

The certification is required for **ALL** funds with any past/prior year activity.

#### **F. Fund Reconciliation Instructions**

Instructions for reconciling funds for the 2014-15 fiscal year will be updated by early June on the Finance website at: <http://www.dof.ca.gov/accounting/Fund%20Reconciliation/>. A Fund Reconciliation Packet (DF-303) must be submitted for funds that will have a Fund Condition Statement in the 2016-17 Governor's Budget. A Form DF-304, Non-Governmental Cost Fund Past Year Expenditure Reconciliation, must be submitted for non-governmental cost funds that will not have a Fund Condition Statement in the 2016-17 Governor's Budget. Departments must adhere to the deadlines provided in this BL to ensure funds are reconciled on a timely basis.

If you have any questions, please contact your Finance budget analyst. If necessary, your Finance budget analyst will coordinate questions amongst other areas within Finance.

/s/ Todd Jerue

TODD JERUE  
Chief Operating Officer

Attachment